Research Paper | Commerce | E-ISSN No : 2454-9916 | Volume : 11 | Issue : 3 | March 2025

A DESCRIPTIVE STUDY ON THE GROWTH OF MUTUAL FUND INDUSTRY IN INDIA

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ABSTRACT

Mutual fund industry is one of the fastest growing investment industries amongst the others. Despite of this title of fastest growing industry and providing numerous benefits, so many investors still do not invest into mutual funds because of lack of awareness and knowledge. This research work will help the investors in knowing mutual fund in way better. This research has explore various important factors of mutual funds that investor must know before investing into mutual funds. It covers the history of the mutual fund industry, types of schemes and various authorities that are involved in working of mutual fund. It also describes various terminologies like diversification, SIP, loads, NAV and asset under management. This research will also provide brief details to potential investors about ways to invest into mutual funds. It also covers the growth of mutual fund industry in terms of its average asset under management. The research will provide sufficient information to investors to make themselves educate and aware in terms of investment.

KEYWORDS: Mutual Fund Industry, Growth, Risk-Return Performance Measures, Asset Under Management

1. INTRODUCTION

Savings and investment now a day become a common term that everyone knows. Initially a person considers that real estate and gold is the only good way to invest. After the passage of time, the definition of investment has changed. People started considering other options like bank fixed deposit, mutual fund, post office saving schemes, pension schemes and many more. One of the highly recommended and chosen investment options amongst all is mutual funds. Mutual fund collects money from bunch of investors and pools them together and invests them into security market. For the invested amount mutual fund holder gets units of the same as per amount invested. Mutual fund companies have expert asset manager and fund manager that manages the fund as per the requirement of the investors and best of investors benefit. The returns generated by the mutual funds get distributed amongst holders as per units hold by them. With the small amount people can invest in mutual funds. It provides bunch of benefits like expert management, tax saving benefits, liquidity, transparency, diversification and good returns. Despite of these all benefits some investors still do not opt for mutual fund due to lack of knowledge and awareness. So, the objective of this research is to give them theoretical information about various sides of mutual fund that investors have to look for before opting for mutual fund as an investment. The research will provide investors a basic knowledge and awareness regarding mutual funds.

2. REVIEW OF LITERATURE

1. Saini et al. (2011) have analysed about the awareness and perception of investors on the basis of demographic profile. The result shows that investors are still not fully aware. Investor thinks of liquidity more when it comes to investing in mutual funds. So, they prefer those schemes that give them flexibility for money.
2. Zaheeruddin et al. (2013) evaluated the performance of 3 specific mutual fund intermediaries using performance ratios of mutual funds. The result of the evaluation shows the capabilities of the funds in terms of returns and the risk that they contain.
3. Tripathi and Japee (2020) have analysed the performance of open ended equity mutual fund schemes from large cap, mid-cap and small cap funds to measure the risk and return through performance ratios. They have studied 15 equity funds and came to conclusion that 10 fund perform good despite of highly volatile market.
4. Rokade (2021) has examined the growth of selected fund houses and their performance. The study found that amongst the 5 schemes the top performing scheme as per STJ ratios is HDFC Top 200. This shows the risk return relation of the scheme.
5. Rajput and Chhabra (2023) studied the performance of mutual fund on the basis of average asset under management. Rajput and Chhabra examined that asset under management has constant increasing trend for past 8 years. Due to pandemic it has gone bit low in increasing rate but it has never decreased asset under management. This shows the influence of mutual funds in the minds of investors.
6. Kavya and Prakash (2024) in their paper discuss about the preferences and strategies of the investors while selecting mutual funds. The study reveals that investors do choose short term investment with regular quarterly income with debt funds scheme. They do not frequently change the portfolios that once set. Mutual fund is chosen by the

regular investors while new investors still have fear and confusion about investing in mutual fund.

3. NEED OF THE STUDY

From the start to till date Indian mutual fund industry has seen a lot of highs and lows. The journey of growth of mutual fund is one of the enduring sights to look for. Despite of all these good sides of mutual funds so many people still do not invest into it and the reason behind is poor knowledge in terms of workings of mutual funds and lack of awareness. So many researches has been done in context of knowing the performance of companies or the schemes of mutual funds, knowing about investors choices while opting the mutual funds and assessing the growth of asset under management and the schemes of mutual fund and much more. But very fewer studies are there which focuses mainly on to educate the investors about mutual funds.

So, to gap the research from other researches we need to focus on mutual funds, its working, understanding their schemes, technical terms, methods to invest, things to check before investing and so on.

The need for the study is to make investor aware about mutual fund from back to front and to make them understand its importance. This study will help the investors and potential investors in knowing about mutual fund in much better way. And the knowledge may lead potential investors to become mutual fund investors and can contribute to the economy.

4. OBJECTIVES OF THE STUDY

1. To describe the workings of mutual funds.
2. To describe the growth and development of mutual funds.
3. To describe the risk return performance ratios of mutual funds.
4. To analyse the growth of average asset under management of mutual fund over past years.

5. GROWTH AND DEVELOPMENT OF MUTUAL FUND IN INDIA

The beginning of mutual fund was started in 1963 with the foundation of Unit Trust of India. Initially RBI was controlling the functions of UTI but afterwards it was taken over by IDBI. In 1964 the very first scheme launched by UTI was unit scheme. The only ruling mutual funds until the public and private sector enter was UTI. But afterwards public sector banks started offering mutual funds. The first public sector mutual fund was started in 1987 by SBI Mutual Funds followed by other public sector banks as well as insurance companies like LIC(1989) and GIC(1990). But investors were facing problem investing due to lack of control and lack of regulations over mutual fund companies. These problems get solved with the establishment of SEBI in 1992. SEBI took over the regulatory rights of mutual funds. SEBI takes care of the rights of investors and also put some restrictions on mutual fund companies to ensure the securities of investors.

In 1993, private sector enters into mutual funds and with that the growth of mutual fund industry has taken another great tern. Now investors do have wide range of choices for their investment. Besides these all, number of mutual funds started increasing with some foreign sponsors. Upto January 2003, total 33 mutual funds were working considering all the mergers, acquisitions and new setups. In that same year, the largest mutual fund UTI was divided into two parts. One part of it is owned and regulated by UTI itself and another part now comes under the regulations of SEBI.

Due to global meltdown in 2009 mutual funds have faced downfalls and because of this the trust of investors in mutual funds started trembling. Recovering from the incident and with the constant efforts of SEBI mutual fund started gaining their original place back with setting positive trend amongst investors. In a year 2014 the mutual fund industry has achieved the height of 10 trillion in the Asset Under Management of the industry. In the year 2017 within the three years of this achievement the AUM of the industry become double compared to 2014 and it goes almost triple in 2020.

In February 2020, the AUM was 27.23 trillion. This grows almost two folds in 2025 with 64.53 trillion within 5 years. These growths have significant impact of SEBI regulations as well as investors changing approach towards mutual funds. Mutual fund industry has grown in many ways. It provides variety of schemes, customised portfolios and different range of services. It also witnessed the digitalization, easy and on the tip investment solution.

6. PARTIES INVOLVED IN MUTUAL FUNDS

Sponsor: The main person or an entity that creates the mutual funds is named as sponsor. The sponsor itself creates the trust and appoints the trustees as well as asset management company. It also handles the funds obtained by the mutual fund company. The sponsor has to ask for permission from SEBI and after valid fulfilment of legal requirement SEBI will allow to establish mutual fund.

Trustee: The sponsor will create trust in accomplice with Indian Trust Act, 1882 and will appoint a trustee to make sure that the trustee will keep the asset of mutual funds in their holdings. The trustee has a duty to look for funds of investors and to make sure that the use of that fund is in best interest of the investors. It is trustees' duty to check that the workings of mutual fund are in accordance with SEBI rules.

Asset Management Company: Asset management companies will manage the funds that are invested by investors. AMC offers numerous schemes and manages all the funds created by the schemes. It acts as a manager of a trust. For investors AMC is most important because it is in direct contact with investors. It is AMCs responsibility to provide details relating to the performance of the schemes and its risk returns.

Fund Manager: The asset management company will appoint the fund manager. Fund managers do have expertise in picking up the right stocks in the market to invest the money of the investors safely. Fund manager suggests the best stocks to AMCs to invest the money.

Custodian: The custodian will keep the track of records of investment accounts of mutual funds. They look forwards to the delivery of the securities and transfer of the securities to investors. Apart from that they also update the holdings of investors as well as provide information about bonus, dividends and interests.

Registrar and Transfer Agent: Registrar and transfer agents are mediators between mutual fund companies and investors. They will process the application of the investors, hands them units of their holdings, redeem the units, process the dividends and so on. They are in charge of keeping the records of investor's information and give them details time to time.

7. TYPES OF MUTUAL FUND SCHEMES

Mutual fund companies do provide wide range of schemes for investors to invest. Investors do choose scheme as per their appetite for risk and a time period for which they want to invest and the schemes are;

Schemes Based on Organisation Structure:

Open Ended Scheme: These schemes provide flexibility to investors to enter and exit from the scheme. It does not contain any time limitations. Investors can purchase or sale the scheme at any time at the NAV of that particular day.

Close Ended Scheme: Close ended schemes do have fixed amount of time to purchase and sale the scheme. Investors can purchase the scheme only at issued time and can redeem at maturity. But if any investor wants sell the security at any point before maturity they can sell it through stock exchange.

Interval Scheme: These schemes do have mixed features of both open ended as well as close ended. It is somewhat like close ended schemes. But it provides flexibilities to sell the fund at transaction period unlike close ended schemes.

Schemes Based on Management:

Actively Managed:

In an active fund, the fund manager decides the stocks for purchase and sells by actively being present. Different styles and strategies were adopted to make and manage the portfolio.

Passively Managed:

Passive funds do follow the benchmark or Index. So in this fund manager do have passive role in the management. In these funds purchase and sell of securities are based on market index.

Schemes Based on Objective of Investment:

Growth: Investors who have long term capacities of keeping their money at one investment for a longer period of time can enjoy the benefit of capital appreciation through growth scheme. Mainly growth schemes are for longer duration and they invest into equities. So the return as per long perspective can be greater but for shorter duration it may change frequently due to market volatility.

Income: Investors with regular income mentality do prefer income schemes for investment purpose. These funds mainly have their investment into fixed securities. So that regular income can be generated at fixed intervals and capital also raises in long term.

Liquidity: These funds are also known as overnight or money market funds. The investors' money is being kept into money market where the maturity of the funds is within year or so. People with short term capabilities and need for liquidity refers to select liquid funds.

Schemes Based on Portfolio:

Equity Schemes: These schemes are same as growth schemes. In this investors' money are being kept with equity related products. Investors with long term investment planning and insights do choose equity schemes.

Debt Schemes: Income schemes are having similar features as of debt schemes. Investors with objective of regular income go for debt schemes. These schemes mainly invest the money into government security, debenture, bonds etc…

Money Market: Investors now a day prefer schemes with low tenure and good returns. These schemes keep the money at securities that have maturity period of less than 1 year like commercial papers, treasury bills, certificate of deposits etc…

Schemes Based on Solutions:

Tax Saving Schemes: People who want to take advantage of tax benefits will prefer scheme that gives them tax advantage. Equity Linked Saving Scheme is one of such tax saving scheme. By investing in such scheme investor can claim deduction as per Income Tax Act.

Child Welfare: Parents always wants to secure the future of their children. So for higher education, marriage and healthcare parents tends to invest into mutual fund child welfare scheme to secure their child's coming life.

Retirement Schemes: Employee who wants their life stable and secure even after completing their job life prefers to invest into schemes like retirement schemes. It is a long term investment but it will generate greater returns at the maturity period.

Other Funds:

ETF: ETF are Exchange Traded Funds which pool the money of investors and invest into basket of stocks. Unlike other mutual funds, ETFs changes its value whole day like stocks because it follows the Sensex and nifty indexes. These are less expensive and passively managed by mutual fund managers.

Fund of Funds: These funds work little differently compare to other funds of mutual funds. Other schemes invest directly into stocks, bonds and others, but fund of fund scheme invest into other funds rather than direct investment. For smaller investors it is more advisable because they can explore more diversified fund through fund of fund scheme.

Overseas Fund: Other schemes and fund invest into the companies of home country only. Whereas overseas fund invest

into international markets as well to gain benefit of foreign market as well.

8. IMPORTANT TERMS:

Asset Under Management: Asset under management is a total market value of the all the investment amount that is holding by any financial institution or asset management companies.

Diversification: This term describe that investors have to spread their investment over various investment instruments. So that risk goes to its minimum and return can be generated more by adjusting losses from other investments.

NAV: NAV is Net Asset Value. It represents the market value of the mutual fund holding per unit. Investors buy and sell the units of mutual fund through this value itself.

Loads: Loads are the charges that are taken by the mutual fund companies for their expert services. There are two types of loads i.e. Entry and Exit. The charges that one has to pay while purchasing the fund are entry loads. While exit loads are charges that needs to be paid during the sale of fund.

SIP: These are systematic investment plans. Where, investor needs pay the money on little instalments and are payable at regular intervals. Through SIP investors with small amounts can also invest and get good returns in future.

9. RISK RETURN PERFORMANCE RATIOS:

Investors always look for the past performance of any investment and the return that they generate. But they should also look for risk factor as well. So, mutual fund investor needs to know about these risk return measures before opting for any portfolios. Here are few important measures discussed which shows the meaning and its usefulness.

Alpha:

It is also popularly known as Jenson's alpha. Alpha shows the performance of mutual fund compared to its benchmark index on the basis of return. It is a difference between the return that a fund has generated and the return of the benchmark. If the alpha of the fund is 0 that means fund has generated returns similar as of benchmark. If the alpha of the fund is more than 0, it shows that the performance of the mutual fund is good compare to benchmark returns and if the result shows less than 0 means negative alpha it indicates that returns of mutual fund is low compared to benchmark returns.

Beta:

Beta shows the riskiness or volatility of the fund in comparison to its benchmark. If the beta of the fund is 1 that means fund has equal risk compared to the benchmark index risk. If the beta of the fund is greater than 1 that shows the riskiness of the fund is higher as of its benchmark and vice versa.

Sharpe Ratio:

Sharpe ratio shows the performance of the mutual fund after adjusting the risk taken by it. In short it shows the risk adjusted returns of the fund. Higher Sharpe ratio indicates the good performance because it shows that returns are quite good in comparison to the risk taken. It also speaks about the intelligent decisiveness of fund manager while picking the fund.

Sortino Ratio:

It is similar to Sharpe ratio. The only difference between these two is sortino considers only downward prices (risk factor) where Sharpe ratio consider both upward as well as downward risks too.

Infromation Ratio:

This ratio is useful for investors to know about the capability of the manager of the mutual fund in gaining returns through picking such an investment so that investor of the fund get benefited by greater returns compared to benchmark returns. The higher ratio indicates the stability of manager.

Standard Deviation:

Standard deviation shows the variation or a fluctuation in the returns of the funds from its average returns. The higher standard deviation means higher risk and less returns and vice versa.

R-Square:

R-Square shows the correlation of the fund and its benchmark. The result of R-Square is shown into percentage form. The higher percentage means the fund is closely following the path of benchmark and the lower Percentage shows fund managers individually opting for stocks irrespective of the benchmark.

Treynor Ratio:

This ratio also measures the risk adjusted returns of the funds same like Sharpe ratio. Unlike Sharpe ratio, Treynor considers beta as a base for calculation. While in Sharpe ratio it Considers standard deviation for base. The difference between both is that Standard deviation considers total means overall risk while beta considers only standard risk. The higher ratio indicates better investment.

10. HOW TO INVEST IN MUTUAL FUNDS

One can invest in mutual fund through two ways either invest through online procedure or opt to go for offline form fillings. Before picking the mode for application investor needs to choose scheme for investment as per their risk apatite as well as they need to select mutual fund asset management company where they want to keep their funds. Let us understand the procedure briefly.

Online Procedure:

- Firstly the investor needs to go to the website of the mutual fund company and fill the form for e-KYC using appropriate documents.
- After the registration and KYC procedure investor needs to select the mutual fund scheme and other investment related information.
- Once the information gets filled properly investors have to validate and verify the details through submitting the form with OTP verification.
- After verification payment has to be done and a confirmation

details will be send by the AMCs.

Offline Procedure:
- Investor needs to visit office of the asset management company in person.
- Complete the KYC process using documents in physical form in person. Where they have to give self-attested copy of required documents.
- After the KYC process, investors have to fill application form for investment schemes where they want to invest.
- At last they had to pay for the investment using cheque or demand draft. Investor will get investment related information like folio number and account statement etc…

11. GROWTH OF AVERAGE ASSET UNDER MANAGEMENT OF MUTUAL FUNDS OVER YEARS

Mutual fund industry has witnessed tremendous growth in asset under management over years. Here we will discuss the increase in average asset under management of mutual fund over past years from 2018 to 2024. The data for that is collected from the official website of AMFI and the data that has been considered for measuring the growth is as of December every year.

Year	Average Asset Under Management (In Crores)	Increase In AAUM (In Crores)	Increase In %
2018	Rs. 22,85,912.00		
2019	Rs. 26,54,074.00	Rs. 3,68,162.00	16.11%
2020	Rs. 31,02,475.00	Rs. 4,48,401.00	16.89%
2021	Rs. 37,72,696.00	Rs. 6,70,221.00	21.60%
2022	Rs. 39,88,735.00	Rs. 2,16,039.00	5.73%
2023	Rs. 50,77,900.00	Rs. 10,89,165.00	27.31%
2024	Rs. 66,93,032.00	Rs. 16,15,132.00	31.81%

Table 1: Table Showing Average Asset Under Management and Increase in AAUM

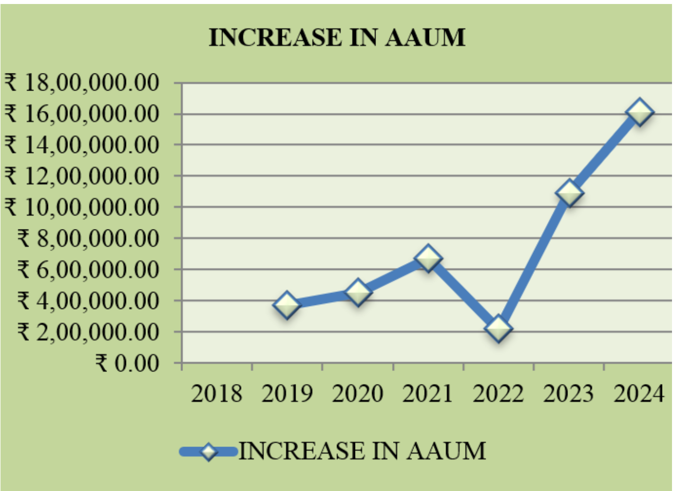

Figure 1: Chart Showing Increase in AAUM

Average asset under management from year 2018 to 2024 has increased constantly. In the year 2018 the average AUM of mutual fund industry was Rs. 22,85,912 crores and it increases to Rs. 66,93,032 crores till the end of 2024. In 2024, the AUM increases more than 3 times compared to 2018. The year 2022 have seen low growth of 5.73% compared to other years. But still it is increasing and reaching to new milestones. Through the chart and table it has become clear that mutual fund industry has grown many folds and it has been indicated in table using percentage as well. Mutual fund industry has reached Rs. 67.58 lakh crores in the February of 2025.

In India out of total population only 8% of people invest in mutual funds and that seems to be very low. The reason behind low investment is lack of awareness. People living in urban areas do know about mutual funds and are still growing but rural areas leg behind. This paper will be useful for the rural investors to know about mutual funds.

12. CONCLUSION

This research is an attempt to make people aware about mutual funds as well as to describe the whole view of mutual fund to investors. In financial market mutual fund do have its own great share. Mutual funds do provide variety of benefits including liquidity, professional management, transparency, low minimum investment, diversification and flexibility. It can be concluded from the research that mutual fund industry has grown many folds. But to reach that height it has faced so many ups and downs. Whether it was market volatility, growing competition, less awareness or regulatory drawback, mutual fund industry has still grown with all the challenges. To address one of the challenge named awareness, this research has been taken into consideration. This research will help potential investors and a person who wants to know about mutual funds from the start.

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